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Armenia, Republic of

Product Brief

Wheat

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Report Highlights:

Although a relatively small, distant market, Armenia can purchase US wheat if world market conditions permit. Those special conditions, namely restricted exportable supplies from Russia and other "traditional" origins, and favorable relative prices, existed recently and about 33,000 metric tons of US hard red winter wheat sales were registered. Armenian millers value US wheat for its ability to improve bread and product quality.

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Section I. Summary

Armenia can be a market for small lots of US wheat if exporters are willing to carefully consider prices, transportation logistics, and to provide the type of wheat demanded by the market. Armenian millers have gained experience blending high-quality US wheat with local production and imports from other countries over the past few years, and wheat can be profitably shipped from the United States when market conditions merit. Though as a medium term market, much will depend on the volume of domestic production that varies due to changing weather patterns and other difficulties, exportable supply available from traditional suppliers (especially Russia, the Ukraine, and Kazakhstan), and international prices.

Table 1. Advantages and Challenges in the Armenian Wheat Market

Advantages	Challenges
Transportation costs can be favorable from the United States, due to fewer transfers as compared with some origins. Wheat can be sold in economical lots, with shipments through the Georgian port of Poti.	Smaller lots needed by the market, and the distance to market is significant.
Reduced exportable supply in Armenia's traditional suppliers gave the United States a market window, and trade was realized.	Armenia is a price and quality market.
Recent favorable domestic prices were an incentive to import. Business can be done if exporters carefully research the market, and time trade to occur during the later part of the year when traditional suppliers have reduced exportable supplies and domestic stocks begin to run down.	Armenian financial institutions often do not have the ability to finance trade, as the local banking industry is less well developed.

Section II. Regulations and Policies

Armenia's trade system is open, and no special documentation or quality certification requirements apart from standard import/export paperwork are in effect for wheat imports. The process to obtain appropriate certification is straightforward, and importers and exporters do not report any abnormal delays in processing or issuing permits. Traders note that they value the quality information provided by exporters for US wheat shipments.

Section III. Consumption and Market Sectors

Trade Logistics

Most imported wheat is shipped to Yerevan overland by train from the Georgian port of Poti, or by truck from neighboring countries. In many cases, the distance that US wheat must travel would make the landed price uncompetitive. But, since there is only one transfer for US wheat-in Georgia directly to rail cars-transport costs are less than might be expected, and can be lower than those of some of Armenia's suppliers that face more complicated logistics. Further cost savings can be realized when shipments are split between Georgia

and Armenia, increasing the size of vessels that can be used and thus lowering per unit transport costs. Armenia has sufficient warehouse space to import economically viable lots.

Market Size and Potential

Domestic wheat production suffers from dry and variable weather conditions. Further complicating the matter, the domestic agricultural banking and credit system is not yet fully developed, meaning that many farmers have insufficient access to working capital, restricting potential output growth. Finally, land appropriate for wheat production is limited, and producers in some traditional wheat producing areas are beginning to cultivate high value crops such as fruits and vegetables, which have greater potential returns. Therefore, it is unlikely that local production will meet all consumption needs in the short and medium term.

The Armenian market requires an availability of about 30,000 metric tons per month to meet domestic needs. Quality and price are both considerations for the Armenian market, but gluten is less valued because staple Armenian breads do not require a high percentage of this quality component.

The local wheat supply is exhausted within 1-2 months after harvest, or by September-October of each year. A significant share of Armenia's total wheat output is produced and used "in place" on small farms, either processed at a local small mill for home use, or fed to livestock. Reportedly, the quantity of wheat used as feed is expanding as the livestock industry develops. In this sense, a large proportion of output does not enter into the "commercial" channels for making bread or other bakery products.

Further encouraging trade is the relatively large number of mills that strengthen competition, and adequate storage space. Reportedly, about 240 mills are in operation, although the vast majority are very small and work only a few weeks each year in the countryside to process output from small farmers for home use. In total, the milling capacity is greater than market demand.

This Year's Trade

Traditionally, most of Armenia's wheat imports (usually about 100,000-150,000 metric tons per year) are sourced from Russia and other nearby countries, in part due to the smaller lots that they can provide on a regular basis, established trade and financial relationships, and in one case, Kazakhstan, the ability to provide better quality wheat. Since Russia had a reduced crop in 2003, regional supplies were restricted which opened up an opportunity for US wheat. High prices on the Armenian market gave importers the incentive they needed to make the opportunity a reality, and transport costs from other origins such as Kazakhstan were greater than for US wheat because of a greater number of transfers and other factors.

Russian wheat production is expected to increase for the new crop year, and therefore there is a very tight window in which US trade can be completed before wheat from Russia and other origins becomes available to the market. Traders are already acting on the expectation of a larger Russia crop, and have started to make trade agreements with their traditional Russian suppliers. These agreements are expected to cover most of Armenia's demand.

Because of tighter world supplies, the market price for wheat in the capital city of Yerevan (Yerevan, with its approximately one million inhabitants, has the most concentrated population, the largest market, most affluent consumers, and the majority of the large mills)

reached about \$280-\$310 per metric ton, including the 20 percent VAT (import tariffs are not applied to wheat as the country's tariff regime is designed to support the domestic milling industry). Normally, such a high price would restrict trade by dampening consumption and by extension, import demand. However, imports were needed to supplement domestic supplies, and as bread demand is reported to be very price inelastic, such a high domestic price encouraged importers to bring in wheat to the country.

Section IV. Promotional Activities

Bread is considered a staple product. However, some promotional activities are undertaken in Armenia for wheat or bakery products, and millers and bakers are developing new product lines to increase sales. Despite the importance of bread consumption for Armenia and the relatively low level of income, bread consumption is not subsidized.

Section V. Post Contacts and Further Information

CONTACT INFORMATION FOR FAS OFFICES IN RUSSIA AND THE U.S.

U.S. Agricultural Trade Office (Covering Armenia, Belarus, Georgia, and Russia)
American Embassy
Bolshoy Devyatinskiy Pereulok 8
121099 Moscow, Russia
Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069
E-mail: atomoscow@usda.gov

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For mail coming from the U.S.:

Agricultural Trade Office
PSC 77 AGR
APO, AE 09721

For international mail:

Agricultural Trade Office
U.S. Embassy - Box M
Itainen Puistortie 14
00140 Helsinki, Finland

USDA/FAS AND ATO PROGRAMS AND SERVICES

The Foreign Agricultural Service and the Agricultural Trade Office/Moscow offer a variety of programs, services, and information resources to help U.S. exporters of food, beverage, and agricultural products learn more about the Armenian market, establish initial contact with Armenian buyers, and promote their products in the local market. Following is a partial listing of programs and services:

Trade Leads are direct inquiries from Armenian buyers seeking U.S. sources for specific food, beverage, or agricultural products. U.S. companies can receive these Trade Leads by contacting the AgExport Services Division, FAS/USDA or by visiting the USDA/FAS Homepage (see contact information at the beginning of this section).

Buyer Alert is a bi-weekly publication providing information on specific food, beverage, and agricultural products offered by U.S. exporters. U.S. companies may place ads in Buyer

Alert by contacting the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

U.S. Supplier Lists are drawn from an extensive database of companies that can supply a wide range of U.S. food, beverage, and agricultural products. The ATO Moscow supplies these lists to Armenian importers on request. U.S. companies that wish to be included in this database should contact the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

Foreign Buyer Lists are drawn from a database of Armenian importers dealing with a wide range of food, beverage, and agricultural products. U.S. companies can order these lists through the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

ATO/Moscow also coordinates U.S. participation in local trade, sponsors supermarket and menu promotions, provides support for trade missions, and can help arrange appointments for first-time visitors to Armenia. For more detail on these and other programs or activities, please contact the ATO/Moscow (see contact information above).

The FAS website (www.fas.usda.gov) is an excellent source of information on other USDA/FAS export promotion/assistance programs, such as the Market Access Program (MAP) and Credit Guarantee Programs, as well as a wide range of information and reports on market opportunities for U.S. food, beverage, and agricultural exports world-wide.